AGRI-FOOD EQUITY FUND

FINANCIAL STATEMENTS

For the 11 months Ended February 28, 2003

AUDITOR'S REPORT

To the Members of the Legislative Assembly of Saskatchewan

I have audited the statement of financial position of the Agri-Food Equity Fund as at February 28, 2003 and the statements of revenue, expenditure and net financial assets, and cash flows for the period then ended. The Fund's management is responsible for preparing these financial statements for Treasury Board's approval. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at February 28, 2003 and the results of its operations and its cash flows for the period then ended in accordance with Canadian generally accepted accounting principles.

Regina, Saskatchewan
May 2, 2003

Fred Wendel, CMA, CA
Provincial Auditor

103-06662/

AGRI-FOOD EQUITY FUND
STATEMENT OF FINANCIAL POSITION
As at February 28, 2003 and March 31, 2002

	February 28 2003	March 31 2002
FINANCIAL ASSETS		
Due from General Revenue Fund (Note 4)	$ ---	$ 3,582,261
Accounts receivable	---	17,008
Accrued interest and dividends receivable	---	110,800
Due from Department of Agriculture, Food and Rural Revitalization (Note 10)	---	12,575,000
Investments (Note 5)	---	10,064,598
	---	26,349,667
LIABILITIES		
Loan payable (Note 9)	---	22,824,557
Net financial assets (Statement 2)	$ ---	$ 3,525,110

(See accompanying notes to the financial statements)

AGRI-FOOD EQUITY FUND
STATEMENT OF REVENUE, EXPENDITURE AND NET FINANCIAL ASSETS
For the 11 Months Ended February 28, 2003 and the Year Ended March 31, 2002

	February 28 2003	March 31 2002
Revenue		
Grants from the Department of Agriculture, Food and Rural Revitalization	$ ---	$ 6,425,000
Interest and dividends	287,418	386,004
Gain on sale of investment	---	339,752
Administration fee	---	2,500
	287,418	7,153,256
Expenditure		
Provision for investment loss	1,644,417	6,156,135
(Deficit) Surplus for the period	(1,356,999)	997,121
Net financial assets, beginning of period	3,525,110	2,527,989
Net assets transferred to the Agricultural Credit Corporation of Saskatchewan (Note 3)	(2,168,111)	---
Net financial assets, end of period - to Statement 1	$ ---	$ 3,525,110

(See accompanying notes to the financial statements)

AGRI-FOOD EQUITY FUND
STATEMENT OF CASH FLOWS
For the 11 Months Ended February 28, 2003 and the Year Ended March 31, 2002

	February 28 2003	March 31 2002
Cash flows from operating activities:		
Cash receipts from clients	$ ---	$ 2,500
Interest received from General Revenue Fund	78,799	106,652
Interest received from investments	148,709	394,341
Dividends received from investments	75,962	25,263
	303,470	528,756
Cash flows from financing activities:		
Advances from the General Revenue Fund	---	5,000,000
Cash flows from investing activities:		
Investments in Saskatchewan agriculture enterprises	(1,206,500)	(6,325,000)
Disbursements held by lawyer	(27,000)	---
Redemptions of investments	785,297	2,100,066
	(448,203)	(4,224,934)
Net (decrease) increase in cash and cash equivalents	(144,733)	1,303,822
Cash and cash equivalents, beginning of period	3,582,261	2,278,439
Transfer of cash and cash equivalents to the Agricultural Credit Corporation of Saskatchewan (Note 3)	(3,437,528)	---
Cash and cash equivalents, end of period	$ ---	$ 3,582,261

(See accompanying notes to the financial statements)

AGRI-FOOD EQUITY FUND
NOTES TO THE FINANCIAL STATEMENTS
February 28, 2003

1. Authority and Definition

The Agri-Food Equity Fund (Fund) operated pursuant to Section 17.2 of *The Department of Agriculture and Food Act* (Act) to promote and develop agriculture diversification in Saskatchewan. The Fund originated in 1994 as a division of the Agricultural Credit Corporation of Saskatchewan (ACS). The transfer of authority for the Fund to the Department of Agriculture and Food was effective September 22, 1997 by Order in Council 625/1997.

The Fund's mandate was to finance enterprises that promote the creation and expansion of agricultural enterprises in Saskatchewan. Investments took the form of secured bonds, secured debentures and equity of the enterprise. Pursuant to regulations under the Act, the Fund was restricted to a maximum 49% investment in an enterprise's long-term debt or equity, up to $1 million unless authorized by the Minister. The total of all investments made by the Fund was limited to $35 million by the year 2003.

Pursuant to Section 17.11 of *The Department of Agriculture, Food and Rural Revitalization Act*, the Fund's assets and liabilities were transferred to the Agricultural Credit Corporation of Saskatchewan as at February 28, 2003 (date of proclamation) and the Fund was wound up.

2. Significant Accounting Policies

The financial statements are prepared in accordance with Canadian generally accepted accounting principles. The following accounting principles are considered significant.

a) Basis of Accounting

The financial statements are prepared on the accrual basis of accounting.

b) Revenue Recognition

Interest and dividend revenue is recognized as follows:

i) When there is reasonable assurance of ultimate collection, revenue is recognized when earned.
ii) When there is uncertainty as to ultimate collection, revenue is recognized when received.

Grants from the Department of Agriculture, Food and Rural Revitalization are recognized as revenue when they are received/receivable.

c) Investments

Investments are accounted for at cost.

d) Provision for Investment Loss

The provision for investment loss represents management's estimate of likely losses based upon an individual review of the investments. It is possible that changes in future conditions in the near term could require a material change in the provision.

3. Wind-up of Fund

The following were transferred to ACS on February 28, 2003:

Due from General Revenue Fund (Note 4)	$ 3,437,528
Accounts receivable	14,864
Accrued interest and dividends receivable	96,892
Deposits held by lawyer	27,000
Investments (Note 5)	8,841,384
Total assets	12,417,668
Loan payable (Note 9)	10,249,557
Net financial assets (Statement 2)	$ 2,168,111

4. Due from General Revenue Fund

The Fund's bank account is included in the Consolidated Offset Bank Concentration (COBC) arrangement for the Government of Saskatchewan.

The Fund's earned interest is calculated and paid by the General Revenue Fund on a quarterly basis using the Government's thirty-day borrowing rate (2003 eleven month average rate 2.6%; 2002 average rate 3.41%) and the Fund's average daily bank account balance. The Fund earned $76,654 (2002 - $93,634) in interest revenue from the General

Revenue Fund. At the time of transfer $14,864 (2002 - $17,008) of this interest was in accounts receivable.

5. Investments

Investments are comprised as follows:

	February 28 2003	March 31 2002
Loans and debentures	$ 7,002,045	$ 6,289,045
Common shares	10,250,381	10,340,481
Preferred shares	5,551,409	5,753,105
	22,803,835	22,382,631
Less: provision for investment loss	(13,962,451)	(12,318,033)
Net Investments	$ 8,841,384	$10,064,598
Transferred to ACS	$ (8,841,384)	$ ---
	$ ---	$10,064,598

Investments include interest-bearing instruments at rates ranging from 6% to 15% with maturities extending to the year 2007. Investments also include $3.12 million (2002 - $3.02 million) in participating debentures. The profitability of the investee determines the repayment of principal and interest on the participating investments.

6. Financial Instruments

The Fund has determined the fair value of its financial instruments as follows:

a) Due from General Revenue Fund, Due from Department of Agriculture, Food and Rural Revitalization, accounts receivable, accrued interest and dividends receivable, and loan payable:

The carrying amounts on the statement of financial position approximate their fair value due to the short-term nature of these instruments.

b) Investments:

It is not practicable to determine fair values for the investment portfolio due to the lack of a market for these investments. An attempt to determine fair values would not be sufficiently reliable.

7. Credit and Investment Risk

Credit risk is inherent in lending and investment activities. The Fund is exposed to the types of credit risk, which are typical for any lending institution. However, the Fund operates in an environment of higher risk than the banking sector or other traditional financing institutions. This is, in part, because the Fund has a mandate to promote, encourage or contribute to the development of agriculture in Saskatchewan, which involves support for start-up operations, new companies' products at the commercialization stage, and expansions. The Fund also makes equity investments which, by definition, carry a higher risk. The Fund's risk spectrum is comparable to private venture capital.

8. Commitments

At February 28, 2003, the Fund had no investments approved but not yet disbursed (2002 - $0.75 million).

9. Loan Payable

The Fund borrows from the General Revenue Fund to fulfil its mandate. The loan is non-interest bearing with no fixed terms of repayment and is limited to a maximum of $35 million.

10. Related Party Transactions

All Government of Saskatchewan agencies such as departments, corporations, boards and commissions are related since they are all controlled by the Government. These financial statements include transactions with other Government agencies.

Financial assets include a grant receivable of nil (2002 - $12,575,000) due from the Department of Agriculture, Food and Rural Revitalization.

The Fund received use of office space and administrative services from the Department of Agriculture, Food and Rural Revitalization without charge.

Other transactions and amounts due to and from related parties and the terms of settlement are described separately in these financial statements and the notes thereto.